

PORT PRICING IN SOUTH AFRICA

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ABSTRACT

The purpose of this paper is to examine the historical evolution of port pricing in South Africa. The paper reviews the literature and examines industry perspectives that contribute towards a better understanding of the historical evolution of port pricing in South Africa as well as examines contemporary pricing reforms. Improved pricing principles have included a transformation from value-based (ad valorem wharfage) pricing towards a more cost-based (and user pays) pricing approach while concurrently attempting to reduce the historical imbalances between port dues and cargo dues and the consequent intra-port cross subsidisation. Port pricing issues that still need to be addressed include: the lack of port competition; the inefficient pricing across all eight commercial ports – contributing towards intra and inter port cross-subsidisation; the gross skewness of port revenues compared with costs; several unresolved product and industry specific issues with an unclear and partly unjustified port pricing methodology; and insufficient information provided by the Port Authority to allow for a fair assessment of individual tariffs.

Keywords: South Africa; Port Policy; Port Pricing.

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1. INTRODUCTION

Transport costs are significantly able to impede international trade¹. High international transport costs serve, on the one hand, to protect domestic producers from foreign competition, and yet on the other hand, they provide a significant anti-export bias that reduces international competitiveness. Globally, trade liberalisation has reduced both tariff and non-tariff barriers which means that the effective rate of protection provided by transport costs is, for many countries, considerably higher than that provided by tariffs². The reduction in South Africa's trade barriers suggests that transport costs may have become, by default, an increasingly important determinant of trade performance. Thus, crucial to the success of the country's trade policy objectives is the restructuring of the transport sector, with particular emphasis on reducing international transaction costs of which transport costs are the largest component (Chasomeris, 2007). Micco and Perez (2001) confirm that distance is still the main factor behind transport costs; however, among the many other variables that affect transport costs, the efficiency of ports is the most important, and the one that can be most directly affected by government. "The basic economic function of ports is to act as an interface between sea and land-based transport in a seamless and efficient fashion as possible, and therefore the most appropriate measure of the economic performance of a ports system is the cost of moving cargo through that port system" (Ports Regulator, 2010a: 17). The South African government has acknowledged the strategic role of ports and the necessity to promote effective and efficient transport throughout the logistics chain (NFLS, 2005; Havenga, 2010).

The purpose of this paper is to examine the historical evolution of port pricing in South Africa. The paper reviews the literature and examines industry perspectives that contribute towards a better understanding of the historical evolution of port pricing in South Africa as well as examines contemporary pricing reforms.

This paper is structured as follows. Section 2 reviews the literature that benchmarks South Africa's ports and transport costs. Section 3 provides an historical background and context to port pricing in South Africa. Section 4 examines contemporary port pricing issues in South Africa. Section 5 concludes.

2. BENCHMARKING SOUTH AFRICA'S PORTS AND TRANSPORT COSTS

In 1998, the Department of Transport commissioned a study called "Moving South Africa: A Transport Strategy for 2020". In summary, the study found that freight customers saw biases towards import substitution and against export competitiveness of value-added products, a failing rail service, an inefficient port system and, uniquely, world class bulk freight systems (MSA, 1999). The National Freight Logistics Strategy (NFLS, 2005) asserted that South Africa's freight system was fraught with inefficiencies; infrastructure shortfalls and mismatches; lack of integrated planning; the skills base is

¹ This fact is well documented (Limão and Venables, 2001; Micco and Perez, 2001).

² Micco and Perez (2001) show that in the cases of Chile and Ecuador, *ad valorem* transport costs are more than twenty times greater than *ad valorem* tariffs.

deficient and the regulatory framework incapable of resolving industry problems. In 2006, Botes (2006: 21) found that the transport/freight cost of airports and bulk export facilities in South Africa are efficient in terms of international standards (see Table 1). The price gap in ocean container shipping, however, was argued to be as a direct result of port policy that lead to high tariffs, long turnaround times of vessels and restricted shipping lines from fully exploiting the potential economies of scale of larger vessels.

Table 1. International Transport Price Gap

		South Africa R/ton-km	Best Practice R/ton-km	Price Gap R/ton-km	Price wedge
Air		1.10	1.10	0	0%
Ocean	Bulk	0.03	0.03	0	0%
Ocean	Container	0.12	0.10	0.03	21%

Source: Botes, 2006: 21.

The Trade and Industry Chamber's Fund for Research into Industrial Development, Growth and Equity report, by Goode (2007) found that the South African Transport Services Act (1989) provides a price and service guide only for commuter rail. It is silent on freight rail and port services, but Transnet is not to behave in a way that damages the economy. Transnet's key role is to assist in lowering the costs of transport in South Africa. The study analysed and critiqued port prices for the period 2000 to 2007. The study by Goode (2007) is limited, however, as Transnet refused to provide pricing data. Nevertheless, Goode (2007) finds that South Africa's port pricing is strategic and includes non-port financing objectives.

The South African Ports Regulator commissioned an economic review of the South African ports system in 2010. The port benchmarking evidence suggests that South African ports are generally considered high cost and low performance (Ports Regulator, 2010a). For example, Figure 1 compares the total marine and infrastructure costs for a unitary container vessel, 1 April 2010. Of the 12 ports selected ports, the Port of Durban was ranked as the most expensive US\$ 184 300,50.

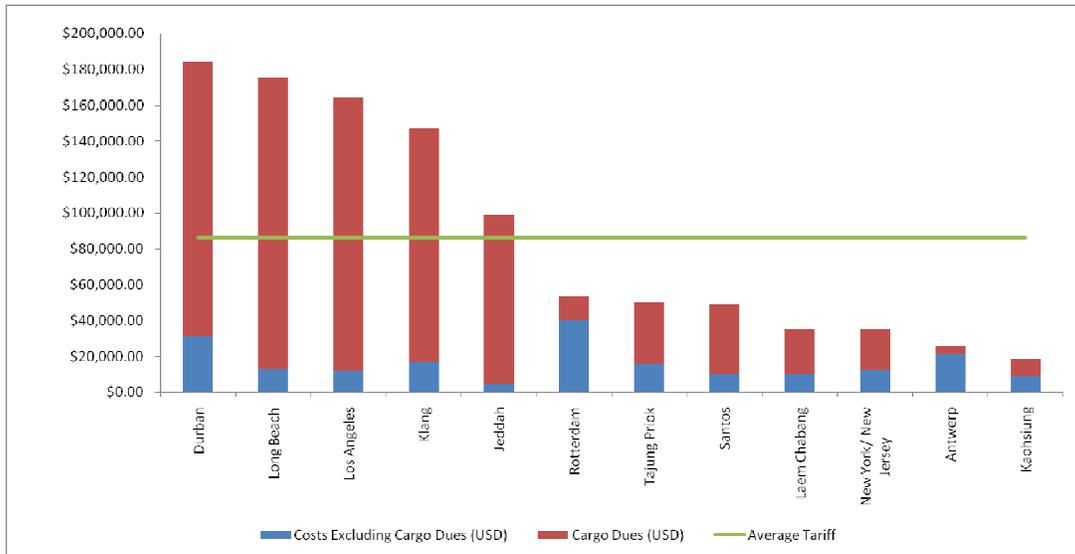


Figure 1. Total Marine and Infrastructure costs for a Unitary Container Vessel, 1 April 2010.

Source: Adapted from Ports Regulator, 2010a.

In terms of productivity, the Port of Durban is less productive when compared to the other ports in the benchmark study. For example, in 2008 the Port of Durban achieved 23 crane container moves per hour, whereas Antwerp recorded 94 crane container moves; Santos 60, Rotterdam 58, Leam Chabang 38 and Klang 35. In 2010, crane container moves per hour for the Port of Durban did not improve, instead they declined to 22 (Ports Regulator of South Africa, 2010a). In 2008, the average container vessel turnaround time was 72 hours in the Port of Durban which is relatively higher than the other ports of Los Angeles 61, Rotterdam 40, Santos 38, Long Beach 24 and Leam Chabang 12. The Port of Durban has, however, been able to improve these figures and reduced vessel turnaround time to 47 hours in 2009 and 45 hours in 2010 (Ports Regulator of South Africa, 2010a).

The above benchmarking study fails to capture the nuances of different port contexts (Ports Regulator, 2010a: 17). Furthermore, it should be noted that the Transnet National Port Authority (TNPA) cannot be held accountable for the entire vessel turnaround time as not all of the factors affecting turnaround time are under the control of TNPA. For example, there may be unfavourable weather conditions and delays by shipping lines that contribute towards the overall vessel delays.

3. A BACKGROUND AND CONTEXT TO PORT PRICING IN SOUTH AFRICA

A brief reflection on the evolution of South Africa’s port policy, pricing and governance shows that, historically, commercial ports have reflected the political system along with its related and often undesirable market and industrial policies. Historically, port users have expressed a justified discontent with port governance, policy and pricing that promoted: import substitution; intra- and inter-port cross subsidisation; inter-modal cross subsidisation; insufficient investment in port infrastructure and superstructures; bureaucracy; skewed prices; and created suspicion in the maritime and transport industries about the impartiality of the port entity (Jones 1988; Department of Transport,

2002: 13). This dismal background provides an opportunity to appreciate the current port policy and governance. Transnet Port Terminals, is the public port terminal operator, operating 14 terminals situated in seven commercial ports along South Africa's coastline. Transnet National Ports Authority is the port landlord. The White Paper on National Commercial Ports Policy was approved by Cabinet in March of 2002. The purpose of this policy is "to ensure affordable, internationally competitive, efficient and safe port services based on the application of commercial rules in a transparent and competitive environment applied consistently across the transport system" (RSA, 2002: Ministerial foreword). The vision for a South African ports system is:

"A system of ports, seamlessly integrated in the transport network, that is jointly and individually self-sustainable through the delivery of high levels of service and increasing efficiency for a growing customer base, enhancing South Africa's global competitiveness and facilitating the expansion of the South African economy through socially and environmentally sustainable port development" (RSA, 2002: 9).

The vision is relatively comprehensive and seeks to rectify the many ills of the past port governance, policy and consequent pricing. The "system of ports" to which the vision refers includes all the existing commercial ports, that is, Richards Bay, Durban, East London, Ngqura, Port Elizabeth, Mossel Bay, Cape Town, Saldanha Bay, Port Nolloth, and offshore cargo handling facilities as well as all future ports and offshore cargo handling facilities to be constructed. These ports are expected to be financially self-sufficient, as well as be managed and administered by TNPA. The TNPA should instil commercial discipline in the ports, and pave the way for efficiency gains necessary for ports and users to become competitive in the global economy (RSA, 2002: 9).

The National Ports Act 12 of 2005 represents the first attempt at creating a comprehensive institutional, operational and regulatory framework for ports. The National Ports Act (2005) aims: "To provide for the establishment of the National Ports Authority and the Ports Regulator; to provide for the administration of certain ports by the National Ports Authority; and to provide for matters connected therewith."

The state-owned Ports Regulator of South Africa came into effect in May 2007. The main functions of the Ports Regulator are to: "exercise economic regulation of the ports system in line with government's strategic objectives; to promote equity of access to ports and to facilities and services provided in ports; to monitor the activities of the National Ports Authority to ensure that it performs its functions in accordance with this Act; and also to hear complaints and appeals under the Ports Act. This mandate is to be exercised in accordance of Government policy with respect to commercial ports, as set out in the National Commercial Ports Policy." (Ports Regulator, 2011a).

Table 2 shows the percentage changes in the country's consumer price index (CPI), marine services, port and berth dues as well as cargo dues from 1999 to 2011. Marine tariffs are charged for the rendering of marine infrastructure like pilotage, tug assistance and berthing. Port dues are raised to cover the "wet" infrastructure of the port, that is, breakwaters, turning basins, aids to navigation inside the port and maintenance dredging of the port. Cargo dues are raised to cover the "dry" infrastructure of the port, that is, the provision and maintenance of quaywalls, roads, railways, buildings, fencing, security, lighting – outside terminal boundaries (Nico Walters, NPA, personal communications, 2005).

Table 2. Percentage change in South Africa's port charges, 1999-2011

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Marine Services	9	7	10	25	11	11	3.6	4.5	5.6	7.5	8.14	4.42	4.49
Port & Berth Dues	7	7	9	30	6.5	6.5	3.6	4.5	5.6	7.5	8.14	4.42	4.49
Wharfage to Cargo dues	W ³	W ³	-5 ⁴	-8 ⁴	2	2	1	3.5	4.5	6.75	8.14	4.42	4.49
CPIX to CPI ¹	6.9	7.7	6.6	9.3	6.8	4.3	3.9	4.6	6.5	11.3	7.1 ¹	4.3 ¹	4.7 ¹⁺²

Note:

1. South Africa changed from using CPIX to using CPI in 2009.
2. CPI for January 2011 is 3.7%; CPI is expected to average 4.7% for 2011.
3. In 1999 and 2000, *ad valorem* wharfage was 1.78% for imports and 0.89% for exports. In 2001, it was reduced to 1.7% and 0.85%.
4. Overall weighted average reduction from wharfage to cargo dues.

Source: Author compiled using data from Kamlesh Kanjee, Senior researcher, TNPA, personal communications, 2008, Govender, researcher, TNPA, personal communications, 2011, Statistics South Africa, 2011 and TNPA, 2011.

The legacy of South Africa's freight system and port pricing strategy reflected a system designed to support an import substitution economy. An important part of the transformation process is acknowledging that South African ports have inherited many performance and pricing problems. Historically, before 2002, the South African ports set prices well below full cost recovery for a number of port functions, including marine infrastructure and services. Port dues – payment by vessels for the use of marine infrastructural assets such as dredged approach channels, fairways and turning basins; berth dues; tug charges and pilotage charges generated revenues below associated costs. Cargo handling charges were closer to related costs, but fell short of full cost coverage. Cargo functions were thus being used to subsidise marine functions. This practice made the South African ports cheap for ships but very expensive for the cargo they carried. Prices that are structured in this way prejudice the carriage of marginal cargoes and deter vessels from working additional cargo at any port call (Jones, 1988; Jones 2002). In stark contrast, if there was to be any cross subsidisation in South African ports, authorities should want to price in exactly the opposite fashion, making the ports cheap for cargo and more expensive for ships. This is logical since ports earn most of their income from cargo functions rather than marine functions. Port authorities, therefore, should not structure tariffs in a way that unnecessarily penalises cargo, especially in the context of aspirant hub and transshipment ports (Jones, 1988).

Ad Valorem Wharfage had long been the most controversial and the most bitterly resented item in the old tariff book (Jones, 1988; Jones, 2002; Naudé, 1999; Chasomeris, 2007). In sum, *ad valorem* wharfage was a value-based rather than cost-based tariff structure, and the high levels of *ad valorem* wharfage grossly skewed revenues in excess of costs. The principle of applying wharfage on an *ad valorem* basis had also been criticised for many years (Jones, 1988). For example, before the implementation of Value Added Tax in 1991, *ad valorem* wharfage charges were 1.8 per cent on import containers and 0.9 per cent on identical export containers. Hence, much of the criticism centred around the fact that wharfage on an *ad valorem* basis favours low-valued commodities in that it is proportionately lower than high-valued commodities while utilising the same infrastructure and port services. Furthermore, the legacy of the import substitution regime was also clearly reflected by the differential in the level of import versus export

charges; that is, port wharfage charges were twice the rate for imports than for identical exports.

South African ports were able to charge high wharfage rates due to the lack of inter-port competition. Most other top class world ports are unable to levy such a charge as they operate in highly competitive environments and are likely to lose customers to competing ports if they did so. For these reasons, *ad valorem* wharfage was one of the most controversial and bitterly resented tariff items over the past fifty years (Jones, 2002).

Some consequences of this *ad valorem* pricing strategy were that wharfage was the main source of harbour revenue, where skewed prices substantially exceeded average costs, generating revenues that dwarfed associated costs by a factor of 300 to 400 per cent (Jones, 2002). Losses associated with other mainly marine related functions were expunged, and the South African ports emerged as profitable entities with aggregate waterfront charges that were high by world standards, particularly when viewed against productivity levels that were low by those same standards. Hence the new administration inherited ports that were artificially cheap for vessels and artificially expensive for their cargoes, on the basis of tariffs that made sense for neither (Jones, 2002).

To achieve a more fair, efficient and competitive system, it was essential that *ad valorem* wharfage be eliminated. In May 2002, wharfage charges were replaced with a set of cargo dues. These changes marked the first substantial reform of South African port tariffs over the past fifty years (Jones, 2002). Cargo dues are levied on a unit basis (set box rate) for containers and a tonnage (volume) basis for other forms of cargo. The transformation of wharfage into cargo dues attempted to close the extent of cross subsidisation and cost-price irregularities across marine and cargo functions. The new tariff also embodies a degree of rate flexibility, with preferential rates for break-bulk and neo-bulk cargoes on a commodity and volume-driven basis (Port Tariffs, 2002 and Jones, 2002). Rather than the value-based *ad valorem* wharfage, cargo dues are cost related and remove the previous discrimination against high value cargo, bringing South Africa more in line with international practices (Jones, 2002). This means, however, that there were clearly gainers and losers from the introduction of cargo dues. As a result of the introduction of cargo dues, some high value cargo owners have gained, experiencing decreases in costs of 67 per cent (Chasomeris, 2007: 113). Cargo dues attracted widespread criticism from exporters of low-value cargos who benefited from subsidised rates in the past and claimed to be bearing the brunt of tariff reforms. Some traders may have seen costs soar by 150 per cent on a 12 meter container (Chasomeris, 2007: 113). Overall, most cargoes paid less because of their value. Goode (2007: 23) notes that “Cargo dues are even collected on empty containers which give the lie to the justification that cargoes should contribute to the payment of port land and cargo handling infrastructure, but does help to increase Port Authority revenue.”

Marine services were historically charged below cost recovery. This was subsequently adjusted in the tariff reform process with the result that marine tariffs became time or distance and cost based which led to marine tariffs being adjusted by 25 per cent and then 11 per cent to address below cost adjustments. Port dues were adjusted once-off by 30 per cent in 2002 (see Table 2). The increase in marine charges helps to lessen the effects of intra-port cross subsidisation. It appears that rather exorbitant profits continue to be made on cargo dues (the highest tariff revenue generator) that are used to subsidise far less profitable marine tariff items, such as port dues, pilotage and tug assistance. Additionally,

South Africa's attempts to improve trade competitiveness partially lie in targeting below inflation adjustments. The TNPA expressed intent to keep adjustments in port costs aligned with the country's inflation targets (Nico Walters, TNPA, personal communications, 2005). Cargo dues will remain a major revenue source, as the future investment in port infrastructure remains high, especially as the provision of appropriate capacity and infrastructure timeously is vital to facilitating growth in South Africa's trade (Nico Walters, TNPA, personal communications, 2005). From 2005 to 2008, the tariff increases in cargo dues as well as marine and port dues have been consistently below the country's consumer price index (CPIX). The below inflation tariff increases have contributed towards a reduction in real transport costs that, in turn, may promote growth in South Africa's international trade (see Table 2). For 2009 and 2010, however, port price increases have been above the country's inflation rate (CPI). In other words, there was an increase in both the nominal and real cost of transporting cargo through South Africa's ports. For 2011, it appears that the tariff increase of 4.49% is slightly below the country's expected mean annual inflation rate of 4.7%.

TNPA is required to submit an application to the Ports Regulator to approve all tariff increases. Directive 23(1) requires that the Ports Regulator considers whether the requested tariffs reflect and balance the following considerations: a systematic tariff methodology that is applicable on a consistent and comparable basis; fairness; the avoidance of discrimination, save where such discrimination is in the public interest; the avoidance of cross-subsidisation, save where in the public interest; promotion of access to ports and efficient and effective management and operation of ports (Ports Regulator, 2011b: 3-4). TNPA applied for a tariff increase of 10.62% for 2010/11. The Ports Regulator allowed a 4.42% increase. Likewise, for the 2011/12 tariff year TNPA applied for an 11.91% increase – the Ports Regulator allowed a 4.49% increase.

The TNPA elected to use a “revenue requirement methodology” as the basis for its 2011/12 tariff application. The Regulator assessed the application on this basis, and largely used the methodology applied by the TNPA, except where the application was not appropriate or was incorrect in the opinion of the Regulator. The model was set out as follows:

$$\text{“Revenue Requirement} = (\text{cost of capital} \times \text{regulatory asset base (“RAB”)}) + \text{operating cost} + \text{depreciation} + \text{taxation expense}$$

Where the Regulatory Asset Base (RAB) = value of the assets used in the regulated services – accumulated depreciation on such assets + working capital” (Ports Regulator, 2011b).

Table 3 shows the TNPA calculation of the required revenue model in contrast with the Ports Regulator calculations for tariff year 2011/12. In Table 3, the difference in RAB is because TNPA used CPI inflation of 6.46% and a CPI inflation forecast of 5.87% in their WACC calculations. The Regulator considered the CPI forecast of 5.87% as credible and therefore used it for all elements requiring inflation. For the WACC, the TNPA used an average of a selection of ports to calculate the beta co-efficient of 0.62 and assumed a market premium of 6.0%. The Regulator, however, opted to use the latest Queensland Competition Authority (QCA) global asset beta for ports of 0.5 and decided to continue using the long term premium of 5.8% supported by research from both the Ports Regulator and TNPA. The operating expenses proposed by TNPA are 20.94% more than

the 2010/11 operating expenses. The regulator decided that an increase of 13.04% was more appropriate because only some of the increases in operating expenses were justified (Ports Regulator, 2011b).

Table 3. TNPA and Ports Regulator calculation of the Required Revenue Model, 2011/12

Description	TNPA Proposed R million	Ports Regulator Decision R million
Regulatory Asset Base (RAB)	51 480	48 529
Real post-tax Weighted Average Cost of Capital (wACC)	5.38%	4.71%
Return on Capital (ROC)	2 768	2 284
Plus: Depreciation	937	937
Plus: Operating Expenses	2 859	2 672
Plus: Taxation Expense	1 077	816
Total Revenue	7 641	6 710
Less 50% of forecast over-recovery in 2010/11		186
Total Revenue Requirement	7 641	6 523
Expected (Allowed) Revenue 2010/11	6 584	(6 020)
Expected Volume Increase (%)	3.70%	
Revenue resulting from volume increase		6 243
Revenue shortfall		280
Tariff increase 2011/2012	11.91%	4.49%

Source: Adapted from Ports Regulator, 2011b.

The Ports Regulator allowed a tariff increase of 4.42% in 2010/11. The allowed revenue for 2010/11 should have been R6 020m, but TNPA expected R6 584m and this implies an over-recovery of R564m. The Regulator determined that 34% of additional revenue was reasonable, hence the Regulator decided to adjust the tariff increases to remove the total impact of over-recovery over a period of 2 tariff determinations (Ports Regulator, 2011b). TNPA are disappointed with the Regulator's decision as it may impact on their ability to maintain debt service ratios and may impact their decisions on future capital expenditure (Sigonyela in Mail and Guardian, 2011).

4. CONTEMPORARY PORT PRICING ISSUES

There are still several challenges to address if South Africa is to continue to improve overall port pricing and performance. Port pricing issues that still need to be addressed include: the lack of port competition; the inefficient pricing across all eight commercial ports – contributing towards intra and inter port cross-subsidisation; the residual skewness of port revenues compared with costs; and the charging of cargo dues on import containers at twice the rate of identical export containers (Chasomeris, 2007). That cargo dues on a 12 meter container are twice the cost of a 6 meter container is evidence that cargo dues are not purely cost based. If there were a benefit (discount) for using a 12m container then perhaps more 12m containers would be used. Such a practice may contribute to an increase in the number of TEUs moved per hour. Furthermore, crane

container moves per hour may be increased if the crane machinery and operators were able to move two containers per crane move.

TNPA operates a so-called “complementary system of ports”. There is a single tariff book that applies uniform pricing to products at all eight commercial ports. The ports are therefore coordinated nationally and are supposed to take advantage of their location and hinterlands. The uniform tariffs system hinders price competition.

The Ports Regulator called for comment on the TNPA 2011/12 tariff application. 34 organisations submitted formal comments on the TNPA application. These comments are available for download from the Ports Regulators website (Ports Regulator, 2010b). This study examined the 34 formal submissions and the findings are discussed below.

Despite significant tariff reform, cargo dues continue to be the most controversial port charge and provide the bulk (70%) of the TNPA's total income (Goode, 2007:23). Goode (2007: 23) states that “high cargo dues levels show that strategic port pricing is practiced in South Africa as pricing is based on meeting objectives outside of the financing and operation of port infrastructure and services.”

The pricing methodology used by TNPA is not clear and port pricing is not purely cost based. Consider the following examples. First, cargo dues on import containers are twice the rate of identical export containers. Second, there are several examples where the cargo dues pricing of break-bulk products are significantly different, even though the costs to move these products may be similar (or the same). For example, SAPPI Export Services ask: “Why must we keep subsidizing other types of cargo that have far more impact on TNPA’s infrastructure than ours?” SAPPI note that Woodpulp was charged at R41.09 per metric ton whereas hot and cold rolled steel coils were charged R20.92 per ton. SAPPI recommend that cargo dues on break bulk should be flat rated and want to pay the same as, if not lower than steel (Ports Regulator, 2010b).

The TNPA 2011/12 tariff application indicated that there would be no increase in the cargo dues for “vehicles-on-wheels”. TNPA’s tariff book shows, however, a 4.49% increase. The cargo dues charged on “vehicles-on-wheels” are not purely cost based and there is a schedule of volume discounts that apply. Mercedes-Benz South Africa (Pty) Ltd explained that the automotive discounts only apply to “vehicles-on-wheels” and, by implication, excludes all materials used by local assembly operations. The discount therefore only benefits those entities that are importing or exporting “vehicles-on-wheels”, it places a premium on the assembly of vehicles in South Africa and does not benefit the export of automotive components to global customers (Ports Regulator, 2010b).

Several comments were made by General Motors South Africa, representing themselves, Nissan South Africa, Mercedes-Benz South Africa, AMH (Hyundai and Kia) and BMW South Africa. General Motors South Africa stated that “it is ill-conceived to suggest that Original Equipment Manufacturers (OEMs) will take, or be able to take, more steps to increase their volume of imports and exports simply because they can take advantages of greater volume discounts available on cargo dues” (Ports Regulator, 2010b). The automotive group recommends “that a single reduced tariff per vehicle which doesn’t disadvantage any OEMs should replace the Sliding Scale” (Ports Regulator, 2010b).

For the 2010/11 tariff year, the Ports Regulator approved a 4.42% tariff increase. The South African Petroleum Industry Association (SAPIA) noted that the tariff increase for crude and petroleum products was 80% (see Table 4). SAPIA asked that no increase be allowed for this tariff category until the issue is resolved. TNPA responded to the complaint and said that the matter was with the Port Regulator and is subjudicæ (Transnet, 2010). Nevertheless, TNPA have increased the tariff for 2011/12 by the approved 4.49%.

Table 4. Selected Liquid Bulk Price Increases, 2010/11 and 2011/12

Products	2009/10 Tariff	2010/11 Tariff	Percentage increase 2010/11	Proposed tariff 2011/12	Proposed Percentage increase	Actual tariff 2011/12	Actual Percentage increase
Molasses & products thereof	2.62	2.74	4.58%	26.43	864.60%	2.86	4.38%
Crude & petroleum products	13.12	23.62	80.03%	26.43	11.90%	24.68	4.49%

Source: Adapted from Ports Regulator, 2010b and TNPA, 2011.

Mondi Limited states that TNPA uses essentially a “cost plus” approach to pricing and such a methodology “provides no incentive or imperative for the TNPA to reduce costs and it even guarantees a profit” (Ports Regulator, 2010b). It is evident, however, that TNPA pricing is not merely cost based, but also somewhat strategic. Consider the following proposed and actual price increases of selected bulk products. Although TNPA proposed a tariff increase of 11.91%, some cargo due increases were extraordinarily higher: Chrome Ore at 117%, Vermiculite at 204%, Woodchips at 612.37%, Molasses and products thereof at 864.60% (see Table 4 and Table 5). Likewise, the South African Shippers’ Council (SASC) raised concerns about the fairness of such tariff differential increases. TNPA responded that there was a need to re-align tariffs on “certain commodities which were not aligned to similar commodities in the same industry utilizing the same operating methods” (Transnet 2010: 8). The proposed tariff increases arguably show the intentions of TNPA. However, TNPA did not provide information allowing the Ports Regulator to make an assessment of individual tariffs. Therefore the Regulator was restricted to approving an overall increase of 4.49% with general application across all tariffs (Ports Regulator, 2011b). Consequently, there is still an opportunity for TNPA to explain their methodology and justify the extraordinary high tariff increases in future tariff applications.

Table 5. Selected Dry Bulk Price Increases, 2011/12

Products	2010/11 Tariff	Proposed tariff 2011/12	Proposed Percentage increase	Actual tariff 2011/12	Actual Percentage increase
Chrome Ore	4.94	10.73	117.21%	5.61	13.56%
Vermiculite	13.43	40.89	204.47%	14.03	4.47%
Woodchips	5.74	40.89	612.37%	6.00	4.53%

Source: Adapted from Ports Regulator, 2010b and TNPA, 2011.

5. CONCLUSION

The purpose of this paper was to examine the historical evolution of port pricing in South Africa. The paper reviewed the literature and examined industry perspectives that contributed towards a better understanding of the historical evolution of port pricing in South Africa as well as examined contemporary pricing reforms.

The container shipping benchmark studies reviewed showed that South Africa's ports were considered high cost and low performance. The benchmarks are limited, however, and they fail to capture the different port contexts. Historically, before 2002, the South African ports set prices well below full cost recovery for a number of port functions, including marine infrastructure and services. Cargo handling charges were closer to related costs, but fell short of full cost coverage. Cargo functions were thus being used to subsidise marine functions. The 2002 tariff restructuring and transformation of *ad valorem* wharfage into cargo dues attempted to close the extent of cross subsidisation and cost-price irregularities across marine and cargo functions. The improved pricing principles have included a transformation from value-based (*ad valorem* wharfage) pricing towards a more cost-based (and user pays) pricing approach while concurrently attempting to reduce the historical imbalances between port dues and cargo dues and the consequent intra-port cross subsidisation.

There are still many challenges to address if South Africa is to continue to improve overall port pricing and performance. Port pricing issues that still need to be addressed include: the lack of port competition; the inefficient pricing across all eight commercial ports – contributing towards intra and inter port cross-subsidisation; the gross skewness of port revenues compared with costs; several unresolved product and industry specific issues with an unclear and partly unjustified port pricing methodology; and insufficient information provided by the Port Authority to allow for a fair assessment of individual tariffs.

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